

Stecon Group (STECON TB) - BUY, Price Bt8.10, TP Bt11.00**Results Comment**

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An unexpected loss in 3Q24

- STECON reported a normalized loss of Bt122m in 3Q24, vs. a profit of Bt130m in 3Q23 and Bt25m in 2Q24. The unexpected loss was mainly due to continued low gross margin, no dividend income from GULF, and equity loss. We thus see a downside risk to our earnings forecast.
- However, we expect its earnings improvement in 4Q24F due to higher revenue recognition from its existing backlog of Bt57bn and potential new work of around Bt40bn and improved gross margin from higher proportion of high-margin projects.
- We maintain a BUY call on STECON as **1)** bad news looks priced into the share price, **2)** we expect its earnings recovery next year driven by higher construction revenue, improved gross margin, and lower equity loss, and **3)** it is one of the best plays on the government's new infrastructure investment cycle.
- STECON's revenues fell by 7% y-y in 3Q24 mainly due to lower construction revenue from the power plant projects which were close to complete in 4Q24.
- Its gross margin remained low at 3.7% in 3Q24 vs. 4.5% in 3Q23 mainly due to repair expenses from the Bueng Nong Bon drainage tunnel project.
- Its equity loss was at Bt142m due to the loss contribution from its 15%-owned Yellow and Pink Lines which started the operation in 4Q23 and 1Q24, respectively.

Income Statement						Income Statement					
(consolidated)						9M as					
Yr-end Dec (Bt m)	3Q23	4Q23	1Q24	2Q24	3Q24	(Bt m)	q-q%	y-y%	% 2024F	2024F	2025F
Revenue	7,876	8,053	6,484	8,457	7,349	Revenue	(13)	(7)	75	29,709	30,750
Gross profit	357	410	380	236	272	Gross profit	15	(24)	62	1,432	1,533
SG&A	137	292	198	242	214	SG&A	(12)	56	73	891	923
Operating profit	220	118	182	(6)	58	Operating profit	na	(74)	43	541	611
EBITDA	422	313	371	196	243	EBITDA	24	(42)	57	1,408	1,511
Other income	15	32	55	240	22	Other income	(91)	41	89	359	393
Other expense	0	0	0	0	0	Other expense					
Interest expense	9	22	35	32	37	Interest expense	16	306	81	129	129
Profit before tax	227	128	203	202	43	Profit before tax	(79)	(81)	58	771	874
Income tax	41	27	42	6	19	Income tax	214	(54)	54	123	157
Equity & invest. income	(54)	(51)	(146)	(166)	(142)	Equity & invest. income	na	na	na	(522)	(452)
Minority interests	(2)	(0)	(2)	(5)	(4)	Minority interests	na	na	na	(8)	(8)
Extraordinary items	0	23	0	0	(25)	Extraordinary items					
Net profit	130	74	12	25	(147)	Net profit	na	na	na	117	257
Normalized profit	130	50	12	25	(122)	Normalized profit	na	na	na	117	257
EPS (Bt)	0.08	0.05	0.01	0.02	(0.10)	EPS (Bt)	na	na	na	0.08	0.17
Normalized EPS (Bt)	0.08	0.03	0.01	0.02	(0.08)	Normalized EPS (Bt)	na	na	na	0.08	0.17
Balance Sheet						Financial Ratios					
(consolidated)						(%)					
Yr-end Dec (Bt m)	3Q23	4Q23	1Q24	2Q24	3Q24		3Q23	4Q23	1Q24	2Q24	3Q24
Cash & ST investment	2,799	5,310	5,244	3,923	2,813	Sales grow th	5.9	(5.4)	0.7	17.0	(6.7)
A/C receivable	10,075	10,386	10,865	10,804	10,615	Operating profit grow th	49.4	(60.4)	(2.1)	na	(73.6)
Inventory	3,679	3,274	3,305	3,487	3,394	EBITDA grow th	2.9	(40.5)	(5.7)	38.2	(42.4)
Other current assets	1,535	1,665	1,797	1,997	1,823	Norm profit grow th	(6.4)	(81.9)	(93.1)	(83.6)	na
Investment	6,457	6,250	6,051	5,962	6,315	Norm EPS grow th	(6.4)	(81.9)	(93.1)	(83.6)	na
Fixed assets	4,702	4,707	4,797	4,902	5,009	Gross margin	4.5	5.1	5.9	2.8	3.7
Other assets	15,978	15,856	15,868	15,361	19,184	Operating margin	2.8	1.5	2.8	(0.1)	0.8
Total assets	45,225	47,449	47,928	46,436	49,152	EBITDA margin	5.4	3.9	5.7	2.3	3.3
S-T debt	2,000	4,745	4,445	4,418	5,981	Norm net margin	1.6	0.6	0.2	0.3	(1.7)
A/C payable	18,888	18,506	19,560	19,091	16,814	D/E (x)	0.1	0.3	0.2	0.3	0.3
Other current liabilities	3,244	3,447	3,504	3,407	3,501	Net D/E (x)	(0.0)	(0.0)	(0.0)	0.0	0.2
L-T debt	0	0	0	0	0	Interest coverage (x)	46.0	14.4	10.6	6.1	6.5
Other liabilities	2,806	2,680	2,592	2,414	3,109	Interest rate	3.2	2.6	3.0	2.9	2.9
Minority interest	305	371	373	378	382	Effective tax rate	18.0	21.1	20.9	3.0	44.0
Shareholders' equity	17,983	17,701	17,453	16,729	19,366	ROA	1.1	0.4	0.1	0.2	(1.0)
Working capital	(5,134)	(4,845)	(5,391)	(4,801)	(2,805)	ROE	2.9	1.1	0.3	0.6	(2.7)
Total debt	2,000	4,745	4,445	4,418	5,981						
Net debt	(799)	(565)	(799)	495	3,168						

Sources: Company data, Thanachart estimates

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